

**MISSOURI STATE AUDITOR'S OFFICE
FISCAL NOTE (08-09)**

Subject

Initiative petition from Henry Robertson regarding a proposed amendment to Chapter 393 of the Missouri Revised Statutes. (Received January 22, 2008)

Date

February 11, 2008

Description

This proposal would create the "Renewable Energy Standard" in the Missouri Revised Statutes.

The proposal is to be voted on in November, 2008.

Public comments and other input

The State Auditor's Office requested input from the **Attorney General's Office**, the **Department of Agriculture**, the **Department of Economic Development**, the **Public Service Commission**, the **Department of Elementary and Secondary Education**, the **Department of Higher Education**, the **Department of Health and Senior Services**, the **Department of Insurance, Financial Institutions and Professional Registration**, the **Department of Mental Health**, the **Department of Natural Resources**, the **Department of Corrections**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety**, the **Department of Social Services**, the **Governor's Office/Office of Administration**, the **Missouri House of Representatives**, the **Department of Conservation**, the **Office of State Courts Administrator**, the **Department of Transportation**, the **Missouri Senate**, the **Secretary of State's Office**, the **Office of the State Public Defender**, the **State Treasurer's Office**, **Cole County**, **Jackson County**, **St. Charles County**, **St. Louis County**, the **City of Columbia**, the **City of Jefferson**, the **City of Kansas City**, the **City of Kirksville**, the **City of St. Louis**, the **City of Springfield**, **Cape Girardeau 63 School District**, **Hannibal School District #60**, **Rockwood R-VI School District**, **Linn State Technical College**, **Metropolitan Community College**, the **University of Missouri**, **St. Louis Community College**.

Assumptions

Officials from the **Attorney General's Office** assumes that this proposal creates no fiscal impact for their office.

Officials from the **Department of Economic Development/Public Service Commission** estimate an annual cost of \$315,641 to the Public Service Commission Fund as result of this proposal.

The department indicated that this petition would require additional PSC rules including, setting a minimum generation amount, allowing retail rates to increase by 1%, assessing penalties for non-compliance, and allowing recovery outside of rate cases for costs incurred (and pass through of benefits to customers of any savings achieved).

Further, they indicated that there will be additional costs for regulatory oversight, investigation, and litigation. The proposed legislation would require constant monitoring and auditing of the electric utilities cost of compliance for prudence as these costs were allowed to be recovered in customer's rates outside a rate case.

In addition, the department indicated that since the Commission is also required to select a program for tracking and verifying the trading of Renewable Energy Credits (REC), staff would also be required to review and monitor the selected program.

The department indicated this proposal is likely to lead to higher electric bills for a majority of Missourians. The proposed language limits the increase in rates to 1% but it is not clear if it is 1% per year or in total.

The department estimates that that following would be needed as a result of this proposal: one policy analyst to continually monitor electric utility compliance; one additional attorney and one additional paralegal to manage an estimated 10 to 15 additional litigation matters annually, plus provision of legal advice and input to technical staff; acquisition of consulting services with a cost of \$50,000 to \$100,000 a year to track and verify trading of renewable energy credits for each of the four Investor Owned Utilities (IOUs) and the Association of Missouri Electric Cooperatives (AMEC)—totaling up to a maximum of 60 hours per month at hourly fees of \$100 - \$150.

The **Department of Elementary and Secondary Education** indicated this proposal would not impact their department or local schools.

Officials from the **Department of Higher Education** indicated no direct, foreseeable impact on their department.

The **Department of Health and Senior Services** indicated no impact as a result of this initiative petition.

The **Department of Insurance, Financial Institutions and Professional Registration** indicated this proposal will have no cost to the department.

The **Department of Mental Health** stated that all utilities for the department are paid by the Office of Administration-Facilities Management and Design and Construction. They indicated that the proposal will have no impact on their department.

Officials from the **Department of Natural Resources** indicated this proposal would require the department to establish by rule a certification process for electricity generated from renewable resources that are used to fulfill the renewable energy resource portfolio requirements set out in Section 393.1030.1 of the proposal. Sources of energy that become available after the effective date of the proposal that are not included in the definition as an eligible renewable resource and that meet established criteria, would be certified by the department by rule. The proposal requires the Public Service Commission to consult with the department in promulgating a rule to establish the Renewable Energy Standard. If not excused by the Public Service Commission for reasons beyond the control of the electric utility or if the maximum average retail rate increase is reached, the electric utility must pay penalties to the department that will be used to purchase renewable energy credits necessary for the electric utility to be in compliance with the targets. Excess funds after the purchase of the credits, would be used by the department's Energy Center solely for energy efficiency or renewable energy projects.

The increased use of renewable resources could provide economic opportunities for the agricultural and business sectors, improve energy reliability by diversifying the state's energy supplies, lower peak demands on the electric grid if distributed renewable generation is used, and improve environmental quality if fossil fuel combustion is displaced.

The department assumes one (1) FTE Planner II would be needed to implement the new responsibilities created by this proposal:

(1) Establish by rule a certification process for electricity generated from renewable resources used to fulfill the renewable energy resource portfolio requirements set out in Section 393.1030.1 of the proposal (section 393.1030.4). The department assumes it would establish certification criteria in consultation with a stakeholder group as part of the framework of rule promulgation consisting of electric utilities, Public Service Commission staff, environmental organizations, renewable energy industries, interested members of the public and other experts. On an ongoing basis, the Planner position would provide technical assistance to utilities, review and analysis of certification criteria due to technological advances and provide information to the public about the certification process and criteria. Criteria would include analysis of fuel type, technology and the environmental impacts of the generating facility (including adverse air, water or land use impacts and impacts associated with gathering of generation feedstocks). For renewable resources that are used with fossil fuels, calculations to determine the

electrical output generated from only the portion of renewable resources would be developed.

(2) Certify by rule sources of energy that become available after the effective date of the proposal that are not included in the definition as an eligible renewable resource (393.1025.4). The Planner position would conduct ongoing analysis and review of new energy sources and if they meet the criteria established by the rule described above, the additional resource would be certified by rule as eligible to count toward compliance with the Renewable Energy Standard.

(3) Receive penalties for non-compliance that are at least twice the average market value of renewable energy credits and use the funds to purchase renewable energy credits necessary to bring the electric utility into compliance with the Renewable Energy Standard. Use excess funds after the purchase of such renewable energy credits for energy efficiency or renewable energy projects (393.1030.2(b)). The Planner position would establish a tracking and reporting system to account for funds received, determine the number of renewable energy credits to purchase in consultation with the Public Service Commission, purchase the credits on behalf of the appropriate electric utility and report the purchases to the utility and Public Service Commission. This position would insure that excess funds are used solely for energy efficiency and renewable energy projects.

(4) Participate in rule promulgation (as required by the proposal) with the Public Service Commission to prescribe the renewable energy portfolio requirements. Consult with the Public Service Commission on the selection of a program to track and verify trading of renewable energy credits (393.1030.1).

Overall, the department estimated an annual cost of \$79,542 for this proposal.

The **Department of Corrections** indicated no impact on their agency.

The **Department of Labor and Industrial Relations** stated the proposal does not have a fiscal impact on their department.

The **Department of Revenue** indicated the proposal would have no impact on their department.

The **Department of Public Safety** indicated they are unable to determine the cost of new energy sources and therefore unable to determine the possible fiscal impact of these petitions.

The **Department of Social Services** indicated there is no direct fiscal impact to their department. However, they did indicate that their offices throughout the state are customers of utility companies. They estimate that passage of this petition would probably increase energy costs for those buildings. In recent years, authority for leasing

state office space and paying utility bills has been transferred to the Office of Administration (OA). Therefore the department defers to OA to estimate the cost, if any.

Officials from the **Governor's Office/Office of Administration** indicated passage of this proposal should not result in additional costs or savings to their agencies. Further, they indicated that if the provisions of this petition were to be approved by voters, there would not be a fiscal impact to the state as far as increases or decreases in state revenues. However, there could be a budget impact in that the costs the state pays to providers of electricity to state owned facilities could increase. According to the data warehouse, the state expended \$35,231,773 for electricity in fiscal year 2007.

The fiscal year 2008 fiscal impact is \$362,887 based on the following assumptions:

1. Level expenditures for fiscal year 2008 as fiscal year 2007;
 2. Electric providers increase charges by the 1% allowed in the petitions;
 3. 3% inflation factor.
- $$\$35,231,773 * .01 * 1.03 = \$362,887$$

The **House of Representatives** indicated the proposed initiative has no fiscal impact to their operations budget.

The **Department of Conservation** indicated that the fiscal impact expected to their agency as a result of this proposal is uncertain.

The **Office of State Courts Administrator** indicated this proposal should not have a fiscal impact on the judiciary.

The **Missouri Senate** indicated there appears to be no fiscal impact on their agency as a result of the proposal.

Officials from the **Secretary of State's Office** indicated their office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with \$1.6 million historically appropriated in even numbered fiscal years and \$100,000 appropriated in odd numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2007, at the August and November elections, there were 6 statewide Constitutional Amendments or ballot propositions that cost \$1.2 million to publish (an average of \$193,000 per issue). Therefore, the Secretary of State's office assumes, for the

purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements.

Officials from the **Office of the State Public Defender** indicated this proposal will have no significant impact on their office.

The **State Treasurer's Office** indicated the proposal will have no fiscal impact on their office.

Officials from the **City of Jefferson** do not anticipate any fiscal impact as a result of this petition.

Officials from the **City of St. Louis** indicated this initiative petition would result in a significant fiscal impact to the city. The city states that this proposal would cause operating costs for the City of St. Louis to rise by an undetermined amount.

The City of St. Louis (City Offices, Street Department, and Lambert International Airport, excluding Water Department and Metropolitan Police Department) spent an estimated \$8,832,052 on electricity in fiscal year 2007. Currently in Missouri, electricity costs can fluctuate anywhere from 5 to 10 cents per kilowatt-hour on average. By following the proposed ballot language, the city estimates that this cost per kilowatt-hour could immediately rise to anywhere in the neighborhood of 10 cents per kilowatt-hour for wind power or 20 to 24 cents per kilowatt-hour for solar power. If, for example, the cost per kilowatt-hour were to rise to the current average level for solar power, the city would immediately realize an increase of nearly 3 ½ times its current electricity costs. This would cause our yearly average expenditure for electricity to jump from roughly \$8.8 million to almost \$31 million.

City officials indicated that some estimates say the average household uses around 11,000 kilowatt-hours a year costing around \$1,500 per year. If this unknown energy cost were to rise to the current average cost of solar power the average household would see their yearly electricity expenditures almost double to nearly \$2,900. This rapid cost increase would be extremely destructive to the average St. Louis City household.

City officials stated that the unknown cost increase could prove to be devastating to the entire economy of St. Louis City. They estimate that these unknown costs could become a crippling expense to their local government, businesses, and citizens.

Officials from **Linn State Technical College** indicated that there appears to be no fiscal impact for their organization as a result of this initiative petition.

Officials from **Metropolitan Community College** indicated the proposal will have no direct fiscal impact on their organization.

The **University of Missouri** indicated they are unable to determine the financial impact of this initiative petition.

The State Auditor's Office did not receive a response from the **Department of Agriculture**, the **Department of Transportation**, **Cole County**, **Jackson County**, **St. Charles County**, **St. Louis County**, the **City of Columbia**, the **City of Kansas City**, the **City of Kirksville**, the **City of Springfield**, **Cape Girardeau 63 School District**, **Hannibal School District #60**, **Rockwood R-VI School District**, **St. Louis Community College**.

Fiscal Note Summary

The estimated direct cost to state governmental entities is \$395,183. It is estimated there are no direct costs or savings to local governmental entities. However, indirect costs may be incurred by state and local governmental entities if the proposal results in increased electricity retail rates.